



Kosovo Business Finance (KBF) Project

Quarterly Report

USAID Contract No.
167-C-00-01-00106-00

Submitted by:
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Submitted to:
USAID

December 1 – February 28, 2003



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1.0 EXECUTIVE SUMMARY

The Kosovo Business Finance project has been in operation for nearly two years. Since the initial start of the project, much progress has been made to realize the project goals and objectives. This report summarizes our activities and overall progress for the quarter of December 1 – February 28, 2003. It is provided in accordance with the Section C, Benchmarks, and Section F.4, Technical Reports, of the Contract for Services No. 167-C-00-01-00106-00 (“the Contract”).

1.1 Project Background

On 10 May, 2001 Deloitte Touche Tohmatsu Emerging Markets, Ltd. (DTTEM) and the United States Agency for International Development (USAID), through its Regional Contracting Office (RCO), signed contract 167-C-00-01-00106-00 for the implementation of the Kosovo Business Finance Project (“KBF” or “the Project”). The KBF is the second component of the Kosovo Employment Generation Program (“KEG”) under implementation by the USAID/Kosovo Mission.

The purpose of the KBF is to:

1. Support the recovery and revitalization of small and medium enterprises (SMEs) in Kosovo by providing a quick response SME credit facility (“the Loan Production Unit” or “LPU”);
2. Establish a full-service bank (“the Bank”) to mobilize deposits and provide other financial services to SMEs in Kosovo; and
3. Provide technical assistance to develop the financial analysis and management capability of bank professionals locally to assure post-Project sustainability.

The KBF will support USAID/Kosovo’s Strategic Objective 1.3 - Establishment of a Market-Oriented Economic Policy and Institutional Framework. The explicit focus of the program will be on stimulating employment and increasing private investment in the SME sector, thereby supporting the rapid and sustainable recovery of living standards for the Kosovar population.

1.2 Progress Summary

The following points summarize the progress achieved during this period for the American Bank of Kosovo/ Raiffeisen Bank Kosovo in the area of operations and in the SME loan program. Activities for the Kosovo Business Finance Fund are also highlighted below.

American Bank of Kosovo Activities

ABK Capital Stock Sale: On December 10, the Kosovo Business Finance Fund (KBFF) and Raiffeisen International Beteiligungs AG (RIB) signed the “Sales and Purchase Agreement” whereby RIB purchased 76 percent of the American Bank of Kosovo’s (ABK) capital stock. USAID will maintain some control over the bank through the Kosovo Business Finance Fund, who maintains ownership of the remaining 24 percent of stock.

Open UNMIK branch: UNMIK constructed a branch facility and ABK will provide a teller and account representative to process onsite transactions. The branch was opened as of December 1, 2002.

Market Share: For 2002, ABK held the second largest market share in deposits (at 12%), behind MEB (63%) and the third largest market share in loans (16%), behind MEB (26%) and BPB (18%).

Deposits gathered: By February 28, 2003, ABK reached a total deposit level of over 55 million Euros, which solidifies ABK's position as having the second largest market share for deposits in Kosovo. Nearly 10 million Euros in deposits had been gathered during this quarter.

Loans approved: During the quarter, the credit committee approved a total of 466 new loans. Since project inception, the credit committee has approved 1,410 loans for a total outstanding portfolio of 17.97 million Euros.

Loans disbursed: A total of 10.44 million Euros has been disbursed to borrowers during the quarter, for a total of 30.2 million Euros disbursed to borrowers since project inception. About 20.7% of the total loans disbursed, by value, consist of agriculture industry loans.

Loans in arrears: According to the credit administration team, as of February 28, 2.0% (Euro 358,132) of the outstanding portfolio was in arrears (more than 30 days past due) on all or a portion of their payments. The portfolio at risk (outstanding loans over 60 days past due) was at a rate of 1.7% (Euro 313,981).

Jobs created: KBF project/ABK financing will result in the creation of 3,910 new jobs or one job for every 8,911 Euro of loan volume. This is an increase of over 700 new jobs during the quarter.

Kosovo Business Finance Fund Activities

Representation of USAID's interests: In January, Alan Pieper, Chief of Party of the KBF project, transitioned out of his role of acting CEO of ABK to focus on his role of representing project and USAID interests on the Supervisory Board for ABK.

Delinquent Loans: Currently, KBFF maintains ownership of 5 loans that have become seriously delinquent. Through the use of the ABK credit and legal staff, KBFF is aggressively pursuing foreclosure and collection actions.

Annual Audit: KBFF has hired Luani to complete the KBFF year-end financial statement audit. This work is expected to be completed by the end of March.

Technical Assistance: The ABK team has requested a total of 190 days for short-term technical assistance to assist with the Globus operating system. There are 48 days remaining for assistance for use by the team to meet the required 11-month commitment stated in the bank sales documents.

1.3 Outstanding Issues and Concerns

We will continue to work with USAID on a daily basis to inform of important issues, concerns, and/or developments that arise in the course of our work. In addition to updates during the period, there are more general issues and developments that we would like to highlight in this report that may have a bearing on performance and/or give rise to new challenges in the future. These are summarized as follows and explained further in Section 6 of this report.

Deposit Targets: Deposit mobilization is not occurring as rapidly as previously expected because the overall deposits in the banking system in Kosovo are stagnant. All deposit growth requires gaining market share at the expense of competing banks. As a result, ABK's deposit base has steadily expanded and market share has been grown faster than any other bank in Kosovo, but the result is far less than the project targets.

2.0 AMERICAN BANK OF KOSOVO

As part of the Kosovo Business Finance Project, the team was required to establish and effectively manage a full-service bank aimed at mobilizing deposits and providing other financial services to SMEs in Kosovo. Once the bank was established, part of this goal included locating a private investor to take over majority ownership from USAID. On December 10, 2002, the Kosovo Business Finance Fund (KBFF), established by the KBF project, and Raiffeisen International Beteiligungs AG (RIB) signed the “Sales and Purchase Agreement” whereby RIB purchased 76 percent of the American Bank of Kosovo’s (ABK) capital stock from USAID. USAID, through the KBFF, will continue as a 24 percent shareholder through the duration of the project (until May 10, 2004). A closing ceremony was held in Kosovo on this date for the signing.

On February 14, 2003, the first shareholders meeting and board of directors meeting since the RZB/RIB stock purchase were held in Vienna. The team had requested additional capital to cover some of the costs in order for ABK to achieve breakeven by September 2003. The request was approved and a new operational and capital expenditure budget was requested by RZB/Vienna to show the additional product income projected and the targeted breakeven by September.

The mission of the American Bank of Kosovo (ABK) is to promote Kosovo’s long-term economic development by profitably providing a full range of needed financial services to small and medium-sized enterprises throughout Kosovo. The team continues to pursue this mission by offering high-quality banking service to all of ABK’s business and retail customers. In line with the mission, the main goal of ABK is to be Kosovo’s leading full-service commercial bank, managed to international standards and serving all segments of the Kosovo economy. This section will provide an overview of the progress made in the management and growth of this bank during the month of February.

Including the headquarters branch in Prishtina, the ABK now has 17 locations serving the citizens of Kosovo. ABK branches and sub-branches can be found in the following locations:

Branches: <ul style="list-style-type: none">• Prishtina• Ferizaj• Prizren• Mitrovica• Gjilan• Gjakova• Peja	Sub-branches: <ul style="list-style-type: none">• Shtpce• Zvecan• Kaqanik• Dragash• Malisheva• Vushtri• Kamenica• Gracanica• N. Mitrovica• UNMIK Headquarters
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2.1 Bank Operations

As consistent with the goals of the project, the team continues its effort to transition local Kosovar employees into management positions for the ABK. In the main branch, Qemail Lumi has been transitioning into the position of acting Chief Operating Officer, pending additional training and suitable performance for full promotion as COO. In the 4 Serbian sub-branches, all South African international supervisors have been transitioned out and local Serbian staff are supervising the branches.

Within the bank, the branches were slightly restructured with clear delegation that the branch manager is responsible for all activities with a matrix line of reporting for the various lines of business and operations. Therefore, the business development, lending, and operations staff all report to the branch manager while concurrently reporting to the Department heads at the main branch in Prishtina. The branch manager reports directly to the acting COO. However, this may change in the near future. This section provides an overview of the progress of Bank operations during the month of February.

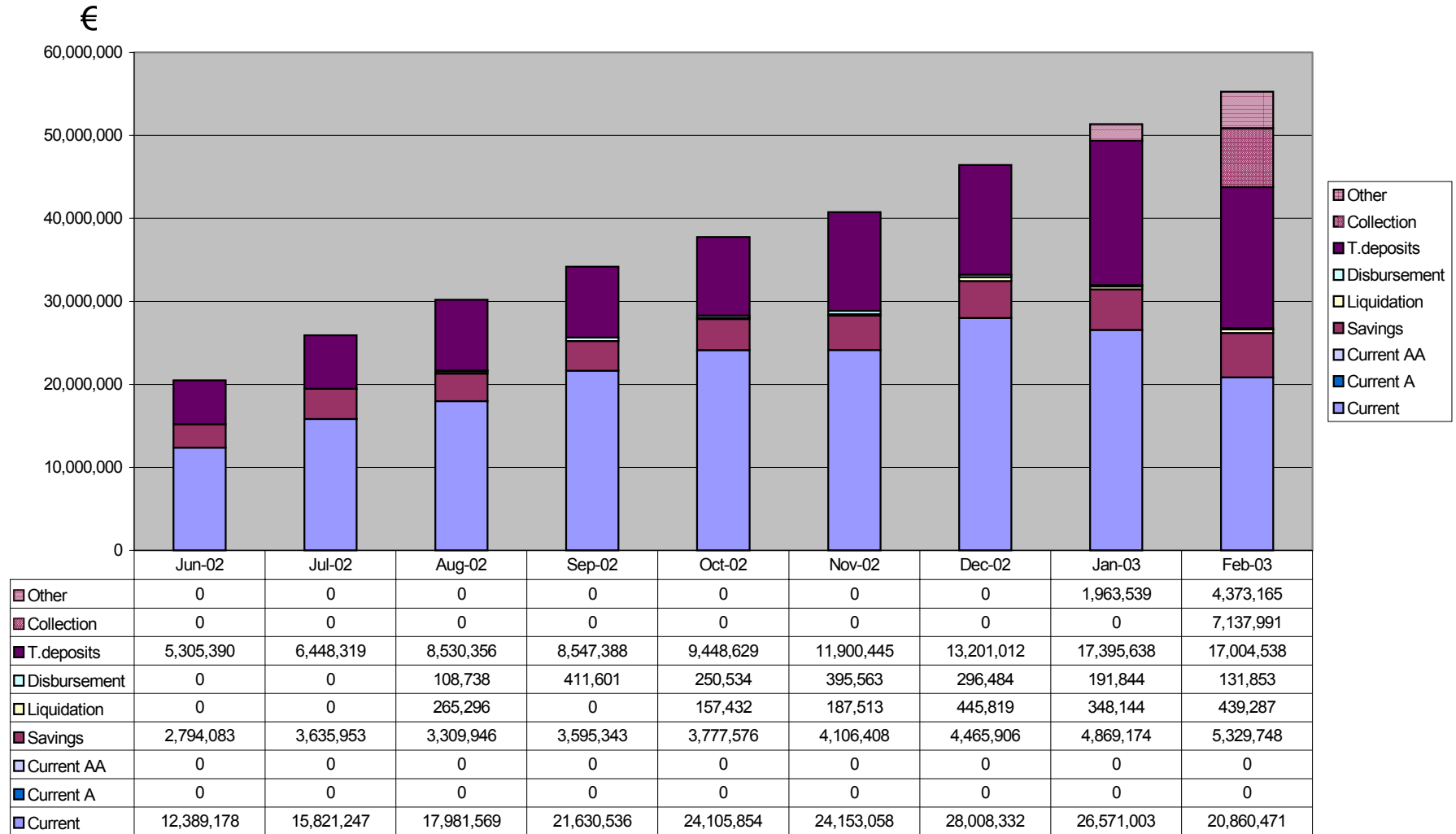
Customer Service

In order to fulfill one of the main goals of the project, the team has focused on improving the customer service levels at all ABK branches. Detailed training on position functions and procedures is also provided for all job areas in order to ensure that the staff is knowledgeable enough to answer most potential questions posed by ABK customers.

Level of Deposits

Even during the slower winter season, deposits continue to rise at ABK/RBK. By February 28, 2003, the deposit level increased by about 10 million Euros during the quarter to over 55 million Euros, with continued growth expected throughout 2003. ABK holds its position with the second largest market share in Kosovo and is expected to maintain this position throughout the year. The chart on the following page provides a detailed view of the deposit trends for different products from June 2002 through February 2003.

Monthly Deposits Average June'02-February'03

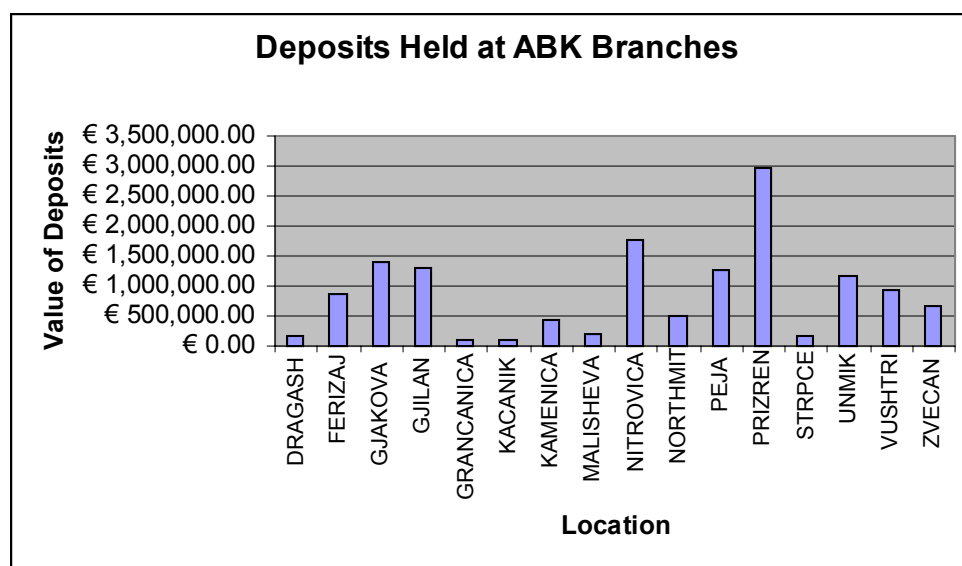


The chart below provides an overview of the deposit contribution, excluding term deposits, of all ABK branches. As noted, Prishtina is the largest with 67.08% of the deposits base. The Prizren branch holds 6.95% of ABK deposits and Mitrovica, a branch in one of the largest Serbian regions in Kosovo, holds the next largest value of deposits at 4.12%. As all branches are relatively new, except for the Prishtina branch, the team expects to see continued growth in these areas.

ABK Deposit Contribution by Branch
As of February 28, 2002

BRANCH	Contribution %
DRAGASH	0.39%
FERIZAJ	2.05%
GJAKOVA	3.32%
GJILAN	3.05%
GRANCANICA	0.23%
KACANIK	0.21%
KAMENICA	1.04%
MALISHEVA	0.46%
NITROVICA	4.12%
NORTHMIT	1.20%
PEJA	2.98%
PRISTINA	67.08%
PRIZREN	6.95%
STRPCE	0.38%
UNMIK	2.76%
VUSHTRI	2.23%
ZVECAN	1.55%

The following chart displays the Euro value of deposits, excluding term deposits, held at each of the ABK branches, except Prishtina, at the end of February 2003. The value of deposits, excluding term deposits, held in the Prishtina was 28.5 million Euros.



Types of Accounts

ABK offers 6 different types of accounts: corporate savings, individual savings, corporate/SME current accounts, personal current accounts, payroll accounts and pensions and social assistance accounts. Currently, there are approximately 70,000 accounts open at ABK.

Operating System Improvements

The IT department continues to work to solve Globus related issues and improve communications within Prishtina and the branches. The external consultants have finished their assignment and now the local staff will maintain Globranch until the bank can connect all branches with the Globus operating system.

2.2 Business Development

The ABK team is aggressively pursuing deposit and loan growth in the Kosovar market. For 2002, ABK held the second largest market share in deposits (at 12%), behind MEB (63%) and the third largest market share in loans (16%), behind MEB (26%) and BPB (18%). For 2003, the team projects a growth in customer deposits to Euro 90 million and a growth in loans to Euro 56 million through a combination of continuation of the SME loan program, initiation of a loan program for the next largest level of companies and by offering a new range of consumer loans in the retail sector.

The sales team continues to work closely with NGO's, large and international organizations to ensure that they are receiving the best possible service at ABK. Additionally, an intensive marketing campaign targeted at the largest entities in Kosovo continues to be conducted by the Branch Marketing Officers in each of the main branches and by the Business Development Associates in Prishtina. Lending Officers also cross sell banking services to their SME loan clients and representation by both the lending and sales teams will be present at all relevant trade fairs throughout Kosovo. Various advertising campaign continue in both international and domestic editions of a Kosovar newspaper to increase awareness of bank services and to highlight international and domestic transfer capabilities.

Rebranding ABK

With the sale of the majority of ABK shares to RIB, the name of the bank will soon change to Raiffeisen Bank Kosovo (RBK). A rebranding campaign will start slowly in March culminating in a formal ceremony currently being planned for May 8, 2003 to coincide with the Board Meetings to be held in Prishtina. A press conference will be held along with a reception for RBK's principal customers, senior locals and international officials and dignitaries. A six-week intensive media campaign will be launched to inform the general public and businesses of the bank's new name. As part of this campaign, several new products will also be launched, as discussed in the New Products section below. The New Business Development team will continue to develop the rebranding campaign through the next couple of months.

New Products

ABK offers a full range of deposit products, money transfer services, pension payments, welfare payments, payroll processing services and a basic cash management system to larger companies that have operations throughout Kosovo. The Bank also has an active SME lending program and is the only bank in Kosovo that allows customers to maintain accounts in any of four currencies. As part of the rebranding campaign, ABK will launch several new products, including a basic cash management/payroll system for the largest entities in Kosovo, an own-brand RBK debit card with an overdraft facility on it for qualified customer employees and several new retail loan products. Each of the new products developed requires further developments in the accounting system if the products are to be offered on a wide-scale basis. A Product Pricing Committee systematically reviews all ABK financial products to determine whether product prices are competitive in the marketplace and profitable for the bank to offer.

With the success of the SME loan program during the first two years of the KBF project, the lending team is developing several new loan products to release in the Kosovar market. During the month, the home improvement loan program was finalized and loan officers are beginning to target this area. An employee auto loan program was developed and is pending ABK board approval. The intent of the program is to provide a benefit for auto purchase to employees that would benefit the ABK by helping to ease the transportation shortage for business purposes. This loan product can be expanded to include consumer loans to selected groups of private individuals who have steady employment and whose employers provide their payroll through the bank.

Other areas of development include:

SWIFT Operations: ABK obtained the ability to utilize SWIFT for international money transactions on December 8, 2002. This functionality allows the ABK to provide better customer service as a result of faster, more reliable money transfers and at the same time will improve operating efficiencies at the bank.

Trade and Export Finance: This product segment is new for Kosovo, however ABK is receiving more and more requests for it. A team of two has been assembled to structure and sell this product. However, credit will likely figure as a key driver in the success of this product in the market.

ATM Network: The implementation of private label bankcards has been delayed, due to the rebranding campaign. Since RIB purchased the bank, the business development team will design a new debit card to reflect the new name, RBK.

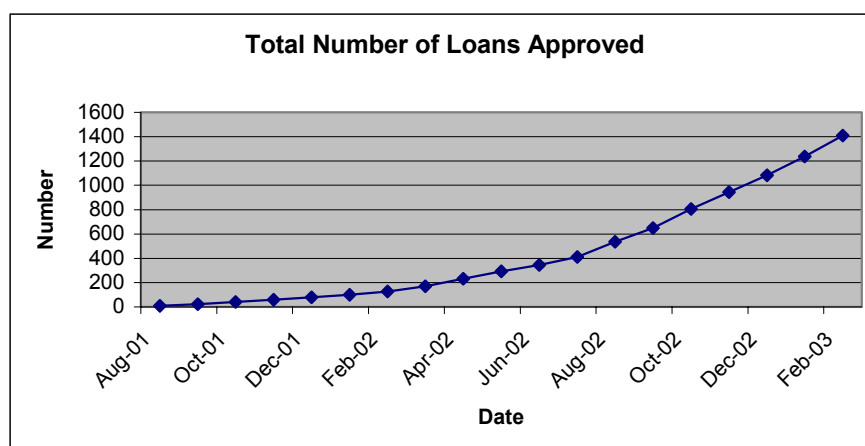
VISA Membership: This initiative has been placed on hold for the time being while the board assesses the processing options available

2.3 Lending Activity

In the lending unit, the team continues to pursue the aggressive benchmarks that have been set by USAID for Year 2 of the project. This quarter, USAID determined that they would no longer require concurrence of the SME loans granted through the ABK. The following section provides an overview of the other activities in the credit administration and lending units during the quarter from December 1 – February 28, 2003.

Bank management implemented a fee for loan origination on February 17, 2003 for the SME loan program. Although there were some concerns about the effects on demand, to date, there seems to be no negative impact seen on loan production. In fact, the last three weeks have been the most productive for the ABK.

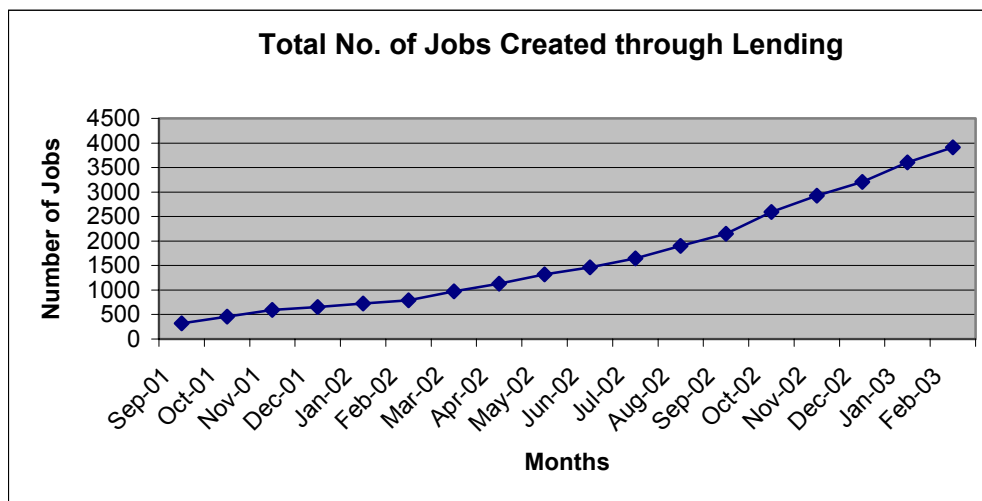
The Lending Unit approved 466 SME loans during the quarter, bringing the project-to-date loan approvals to 1,410 loans for a total outstanding portfolio of 17.97 million Euros. The chart on the following page details the number of loans approved by the credit committee since the KBF project began lending in August 2001.



The average loan size in the KBFF/ABK portfolio is approximately 25,000 Euros for a term of approximately 10 months. The average new loan amount is slowly increasing, as is the average term, which is about 11 months for new loans.

Employment Generation

As of February 28, 2003, KBF project/ABK financing will result in the direct creation of 3,910 new jobs or one job for approximately every 8,911 Euro of loan volume. If we use the figure of 5,000 DM (or approximately EURO 2,500) in loans disbursed equates to one new job (as stated in the KBF RFP), then the number of jobs created is 13,920 (34.8 million EURO disbursed as of February 28 divided by 2,500). The chart below shows the number of jobs created in Kosovo through the lending program since the start of the project.



Targeted Lending

In accordance with the Project goals for employment generation and economic stimulation, the lending priority is to finance businesses engaged in labor-intensive manufacturing and production activities. Of the 1,410 loan applications that were approved by the project, 66.5% are in the manufacturing/production industry sector, 14.2% are in the service industry sector and 19.4% are engaged in pure trade. A detailed breakdown of the loan portfolio by industry sector is shown below.

KOSOVO BUSINESS FINANCE FUND
Industry Concentration Report

As of February 28, 2003

Industry Sector	Amount	%	# of loans	%
1. Manufacturing+Products	23,423,276.68	67.2	937	66.5
Manufacturing/ Wood	5,011,004.19	14.4	197	14.0
Metal Fabrication	1,120,943.03	3.2	47	3.3
Glass Production	206,000.00	0.6	13	0.9
Textile/ Aparent	1,097,033.41	3.1	54	3.8
Printing/paper products	892,322.54	2.6	34	2.4
Hygienic Production	406,580.87	1.2	12	0.9
Plastics	1,140,995.99	3.3	43	3.0
Pharmaceuticals	222,677.51	0.6	10	0.7
Soft Drinks products	426,667.95	1.2	16	1.1
Food	3,910,199.96	11.2	161	11.4
Milling Plant	880,566.41	2.5	27	1.9
Construction	4,965,139.39	14.2	186	13.2
Electrical	351,532.75	1.0	9	0.6
Farm/Fish, Eggs	1,813,390.00	5.2	94	6.7
Other	978,222.68	2.8	34	2.4
2.Trade	7,635,865.75	21.9	273	19.4
Fertilizer distribution	255,484.21	0.7	6	0.4
Food distribution	626,216.27	1.8	18	1.3
Retail	6,754,165.27	19.4	249	17.7
3.Services	3,784,443.58	10.9	200	14.2
Hotel/Restaurants	1,148,967.94	3.3	60	4.3
Professional services	2,635,475.64	7.6	140	9.9
Total	34,843,586.01	100.0	1410	100.0

Although ABK has not had a specific Ag Sector Loan Program until recently, the SME Lending Program includes the agriculture sector. About 20.7% of the total loans disbursed, by value, during the quarter consist of agriculture industry loans. The expectation is for the agricultural sector loans to continue to be a significant portion of the new loan portfolio.

Total loans in Agriculture sector	Feb-28		December 18 to February 28			
	7,912,524.80	322	2,815,087.95	20.7%	96	17.7%
Soft Drinks	426,667.95	16	74,200.00	0.5%	5	0.9%
Food	4,536,416.23	179	1,540,552.55	11.3%	40	7.4%
Milling Plant	880,566.41	27	274,999.99	2.0%	9	1.7%
Farm/fish, eggs	1,813,390.00	94	817,335.41	6.0%	39	7.2%
Fertilizer	255,484.21	6	108,000.00	0.8%	3	0.6%

The lending team focuses on visiting clients within Prishtina as well as throughout all of Kosovo, including the Serbian enclaves. Of the 1,410 loans approved, 17.9% are to borrowers within the Prishtina municipality, 14.8% in Prizren, 7.5% in Ferizaj and 3.6% in Mitrovica municipality. Lending activity in the minority regions of Kosovo has been one of the priorities of the lending team, as is evident by the increased number of loans generated in these areas. Also, due to the extensive branch network of ABK, the lending team is able to provide better services to the companies outside of Prishtina. The following chart shows a detailed breakdown of the geographic concentration for all loan clients throughout Kosovo.

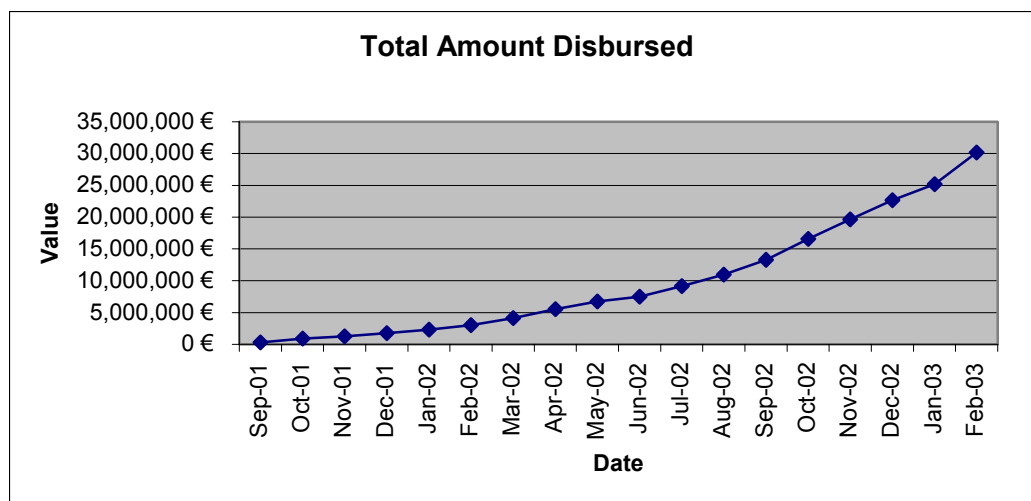
Geographical Concentration Report

As Of February 28, 2003

Municipality	Amount		# of loans	
		%		%
Decan	366,160.99	1.1	18	1.3
Dragash	40,000.00	0.1	2	0.1
Drenas	472,864.59	1.4	27	1.9
Ferizaj	2,421,221.83	6.9	106	7.5
Fushe Kosove	254,013.79	0.7	15	1.1
Gjakove	2,277,698.11	6.5	125	8.9
Gjilan	3,029,510.05	8.7	121	8.6
Istog	788,532.53	2.3	37	2.6
Kacanik	326,000.00	0.9	7	0.5
Klina	186,000.00	0.5	7	0.5
Kamenice	336,700.00	1.0	16	1.1
Leposaviq	219,064.00	0.6	25	1.8
Lipjan	789,532.54	2.3	28	2.0
Malisheve	470,372.63	1.3	15	1.1
N.Mitrovice	146,000.00	0.4	13	0.9
Mitrovice	869,503.55	2.5	51	3.6
Peje	3,285,356.95	9.4	152	10.8
Podujeve	679,962.88	2.0	29	2.1
Pristine	10,352,517.63	29.7	252	17.9
Prizren	5,075,034.70	14.6	209	14.8
Rahovec	257,125.84	0.7	11	0.8
Shtime	332,484.21	1.0	6	0.4
Skenderaj	173,008.13	0.5	12	0.9
Strpce	238,610.00	0.7	24	1.7
Suhareke	299,450.84	0.9	14	1.0
Viti	233,495.00	0.7	16	1.1
Vushtrri	328,895.22	0.9	18	1.3
Zvecan	479,890.00	1.4	42	3.0
Zubin Potok	114,580.00	0.3	12	0.9
Total	34,843,586.01	100.0	1,410	100.0

2.4 Disbursements

As noted in the following chart, a total of 30.2 million Euros has been disbursed to ABK borrowers since the beginning of the KBF project, with further disbursements of approved loans occurring on a daily basis. During the quarter, the team disbursed a total of 19.44 million Euros.



2.5 Portfolio Performance

As of February 28, 2003, the total arrears over 30 days past due for the ABK portfolio was 2.0%, a value of Euro 358,132. The portfolio at risk, outstanding over 60 days past due, was at 1.7%, a value of Euro 313,981. The chart below provides a detailed breakdown of loan performance per branch.

AGE OF ARREARS SUMMARY REPORT

	Outstanding Portfolio	Total Arrears Over 30 days Past Due		Portfolio at Risk (outstanding over 60 days past due)	
	€	€	%	€	%
Peja	€ 2,424,032.92	€ 34,127.96	1.4%	€ 23,031	1.0%
Gjlan	€ 2,109,218.25	€ 31,209.44	1.5%	€ 0	0.0%
Ferizaj	€ 1,937,841.32	€ 62,384.80	3.2%	€ 121,091	6.2%
Prishtina	€ 5,988,349.47	€ 108,853.41	1.8%	€ 75,442	1.3%
Prizren	€ 3,299,203.68	€ 46,500.19	1.4%	€ 21,211	0.6%
Gjakova	€ 1,242,151.66	€ 21,342.99	1.7%	€ 0	0.0%
Mitrovica	€ 400,078.78	€ 51,884.26	13.0%	€ 73,206	18.3%
N. Kosovo	€ 572,653.49	€ 1,829.36	0.3%	€ 0	0.0%
TOTAL ABK	€ 17,973,529.57	€ 358,132.41	2.0%	€ 313,981	1.7%
		€ 358,132.41	2.0%	€ 313,981	1.7%

The estimated value of collateral that was pledged and filed on the loans in arrears is 4-to-18 times greater than the loan amount. Therefore, the loans appear to be adequately secured. However, the security position is only valuable to the extent that the Municipal Courts recognize contractual rights to acquire the property through foreclosure actions. The attitude of the courts differs by municipality, with some courts being very understanding of the KBF project/ABK contractual rights and others appearing to be obstructionary.

2.6 Financial Position

Although there has been much progress made at the ABK in the areas of operations and controls, the financial performance is not quite at the level that was projected in the original budget. This is due, in part, to unforeseen delays in the release of new products and services and the overall declining deposit trends seen in the banking industry to date, resulting in relatively high operating expenses in relationship to current and future revenue generation. The ABK/RBK Board approved the additional capital request to support ABK/RBK in its attempts to reach sustainability by September.

To reduce this amount needed for the capital injection, it was decided to take two key actions. The first is to delay the planned ATM launch, as several key issues would only add costs and possibly create a poor impression of ABK in the marketplace. The current processing costs

would be too high to turn ATMs into a profitable business unit at this point. The planned changeover to 16 digits account codes necessary to meet BPK requirements and the need to change the name of the bank in May would result in the need to issue new cards shortly after release of the first ones at roughly Euro 1 each in direct costs, plus indirect expenses. The issuance of new cards so soon after the first ones would cause confusion and would delay potential additional revenue that could be gained from this service. The added costs would have been significant enough to make breakeven very difficult.

The second major decision proposed was to implement a loan upfront fee, identical to ABK's major competition MEB, of 2% of the loan amount for loans less than Euro 50,000 and 1% for loans over Euro 50,000. As most customers are more concerned about loan tenors and interest rates, and these rates match the key competitor, it was determined that no material adverse effect would occur.

These two changes have a net estimated benefit of approximately Euro 500,000, thereby reducing the capital required by the same amount. A formal request was made and approved by the shareholders for such an amount. A secondary reason for the request for capital is to demonstrate to the external auditors that ABK would have enough capital to continue operations, which has become a growing concern. This amount requested is a base case amount, it could be higher if estimated loan growth is not possible, but also excludes the results of an aggressive campaign to reduce costs and launch potential new products that will contribute additional revenue.

2.7 Staff Development and Training

It is the goal of the project to develop Kosovar citizens into credit and banking professionals that can assume the roles of Loan Officers, Credit Managers and Branch Supervisors within the organization. Job training occurs each workday in all departments since the employees continue to work directly with senior management in the activities related to their specific tasks. In the lending unit, lending associates work with their respective Loan Officer/Senior Manager on originating, disbursing, and monitoring SME loans. The following training took place during the month of February.

KOSOVO BUSINESS FINANCE FUND

Training Schedule Report

As of January 31, 2002

TITLE	DESCRIPTION
1) Small and Micro Lending Techniques 2) Credit Manual 3) Basic Accounting 4) Deposit mobilization 5) Loan monitoring and collection	<ul style="list-style-type: none">• Short course to ABK management on how small and micro lending techniques could be utilized in the ABK lending process;• The ABK Credit Manual containing the policies and procedures that govern all aspects of loan delivery and recovery;• Basics of how to construct the balance sheet and cash flow statement apply to credit analysis and lending decisions;• Discussion on deposits mobilization, characteristics that make deposit attractive to large, medium and small depositors and strategies for soling ABK deposits and other financial products;• An overview of loan monitoring and collection files and techniques includes analysis of loan portfolio quality.
Methods for controlling delinquency	<ul style="list-style-type: none">• Portfolio analysis as an effective tool in decision-making, supervision and controlling delinquency;• Off-site monitoring• On-site monitoring
Character Based Lending	<ul style="list-style-type: none">• Character based as an effective approach to SME lending• Analysis of character indicators: indicators of stability;• Responsibility; entrepreneurial capacity and credit history;• Methods for checking references and assessing results• Review of ABK policies on loan analysis• Use of character based techniques in assessing client's eligibility• Character checklist

3.0 KOSOVO BUSINESS FINANCE FUND

The Kosovo Business Finance Fund (KBFF) was established under USAID funding as a non-profit organization to aide in the reconstruction and economic development in Kosovo by encouraging lending activities, particularly to borrowers that are small or medium size business. In November 2001, the KBFF, along with RIAS, established the American Bank of Kosovo to further its lending objectives. By December 2002, the KBFF, and Raiffeisen International Beteiligungs AG (RIB) signed the “Sales and Purchase Agreement” whereby RIB purchased 76 percent of the American Bank of Kosovo’s (ABK) capital stock. USAID, through the KBFF, will continue as a 24 percent shareholder of ABK through the duration of the project (until May 10, 2004).

In its current role, KBFF serves as the representative of USAID to ensure that the goals of the KBF project are met through the lending activities conducted at the American Bank of Kosovo.

3.1 Indemnity Account

As part of the efforts to integrate the KBFF lending activities into the ABK to create a fully functioning bank, most of the loans initially granted through the KBFF were transferred over to the ABK. After the sale of shares to RIB, an indemnity fund of USD 1 million was created to cover the existing loan portfolio for any loan losses over 3% per annum.

KBFF maintained ownership of 5 loans that had become seriously delinquent. Through the use of the ABK legal and credit staff, KBFF is aggressively pursuing foreclosure and collection actions. A court ordered property settlement was concluded in the case against Dardan Commerce. As a result, KBFF owns a parcel of real estate in the city of Prizren. KBFF signed a contract to resell the property for Euro 61,800 but land survey results by the Cadastre Office (land registry office) must be completed prior to the sale.

3.2 Audit

KBFF has hired Luani, a local public accounting firm, to complete the KBFF year-end financial statement Audit. Luani began their audit work on February 25 and is expected to conclude their work and issue the audit report by March 19, 2003. Luani had completed the previous year-end audit for 2001.

4.0 PROJECT MANAGEMENT

Project management staff continued to support the Kosovo Business Finance project from Washington DC as needed. The following is a summary of some of the major project management issues that were addressed during the quarter. In the upcoming periods, the project management team will continue to work with USAID, RZB and the project team to determine and implement the short-term technical assistance needs for the project.

4.1 Staffing

During this quarter, Steve Grunerud was identified as the CEO for the ABK and began his assignment in January. Steve will be in charge of all operational areas of the bank and will report directly to the Board of Directors. He has been working closely with the team to establish the operating plan for the year.

Alan Pieper has shifted back to his role as the Chief of Party in charge of overseeing project and KBFF interests and representing USAID on the Supervisory Board.

As Peter Glibbery's assignment had ended on December 15, Ilse Schuster replaced him as the new MIS Advisor for the remainder of the project and has settled into her role.

Cameron Knight concluded his assignment as Chief Operating Officer in January and has transferred all of his responsibilities to Qemail Lumi, who will take over in the role of acting Chief Operating Officer under the guidance of Steve Grunerud, until further training and suitable performance is achieved.

Short-term Technical Assistance

As part of the Sales documents for the transfer of shares to RZB, USAID, through the KBF project, had included the long-term expatriate time for key management positions in the bank plus an additional 11 months (238 days) of short-term technical assistance. This short-term assistance included under the project is to be utilized by ABK in the most appropriate means necessary, as determined by the management staff, RZB and USAID.

During the month of February, the team requested to use approximately 190 days of short-term technical assistance for two consultants, Roy Landon and Aidan Clarke to assist with the Globus operating system. Aidan Clarke was unable to travel to Kosovo for personal reasons. Therefore, Rayhaan Willemse will complete the assignment instead.

There are approximately 48 days of short-term technical assistance remaining in the contract.

4.2 Budget

A budgeting system has been developed that will track the budget across various cost categories for the project. In the table below, the actual expenses incurred to date are outlined. According to the chart detailing a comparison of actual costs to the budget for Year 2 of the project, it appears that, through May 3, 2003, the burn rate is at approximately 79.2% of budgeted costs, which is below original projections. This is due to the under utilization of short-term technical assistance to date. Any funds remaining in the Year 2 budget will be carried over to cover the project costs during Year 3.

Estimated Kosovo Business Finance TA (CLIN 1)

	Year 2 Budget (5/10/2002- 5/10/2003)	Year 2 Quarter 1 (5/05/02-8/24/02)	Year 2 Quarter 2 (8/25/02-11/16/02)	Year 2 Quarter 3 (11/17/02-2/08/03)	Estimated February (through 3/08)*	Estimated March (through 4/05)	Estimated April (through 5/03)	Estimated Cumulative Amount - Year 2	Burn Rate
Salaries	\$ 1,210,998.00	\$ 345,837.57	\$ 221,368.67	\$ 207,662.79	\$ 80,000.00	\$ 100,000.00	\$ 100,000.00	\$ 954,869.03	78.8%
Fringe	\$ 124,258.00	\$ 36,484.31	\$ 24,467.86	\$ 25,622.76	\$ 10,000.00	\$ 12,000.00	\$ 12,000.00	\$ 108,574.93	87.4%
Overhead	\$ 1,010,395.00	\$ 290,682.89	\$ 185,884.34	\$ 176,866.17	\$ 67,500.00	\$ 84,000.00	\$ 84,000.00	\$ 804,933.40	79.7%
Travel	\$ 192,500.00	\$ 63,390.43	\$ 21,708.08	\$ 21,043.95	\$ 1,000.00	\$ 3,000.00	\$ 5,000.00	\$ 110,142.46	57.2%
Allowances	\$ 684,250.00	\$ 172,517.43	\$ 133,968.81	\$ 131,158.54	\$ 45,000.00	\$ 50,000.00	\$ 50,000.00	\$ 532,644.78	77.8%
Other Direct Costs	\$ 678,609.00	\$ 219,303.68	\$ 136,386.36	\$ 249,811.80	\$ 25,000.00	\$ 5,000.00	\$ 5,000.00	\$ 635,501.84	93.6%
Subcontractors	\$ 1,180,000.00	\$ 316,070.11	\$ 383,685.36	\$ 103,892.75	\$ 80,000.00	\$ 50,000.00	\$ 50,000.00	\$ 933,648.22	79.1%
General & Administration	\$ 406,481.00	\$ 115,536.80	\$ 88,597.56	\$ 73,284.70	\$ 24,680.00	\$ 24,320.00	\$ 24,480.00	\$ 326,419.06	80.3%
Base Fee	\$ 185,055.00	\$ 31,194.92	\$ 23,921.34	\$ 19,786.87	\$ 6,663.60	\$ 6,566.40	\$ 6,609.60	\$ 88,133.13	47.6%
Totals	\$ 5,672,546.00	\$ 1,591,018.14	\$ 1,219,988.38	\$ 1,009,130.33	\$ 339,843.60	\$ 334,886.40	\$ 337,089.60	\$ 4,494,866.85	79.2%
Award Fee	\$ 423,804.00	\$ -	\$ 54,964.00	\$ -	\$ 111,426.00			\$ 166,390.00	39.3%
Total Value for Clin 1	\$ 6,096,350.00	\$ 1,591,018.14	\$ 1,274,952.38	\$ 1,009,130.33				\$ 4,661,256.85	76.5%

February Costs

* ODC's include the replacement vehicle for KBFF damaged by one of the Lending Associates

**Subcontractor Costs include previously unbilled expenses from RIAS

The team has requested 190 or the 238 days of short-term technical assistance. For the remaining of the contract, the team has a total of 48 days of short-term technical assistance, which can be used throughout the contract. Any budgeted STTA forecasted and not used during Year 2 of the project will be carried over to Year 3.

With regards to obligated funds for the KBF project, as discussed with USAID during the budget modification period, Deloitte expended the total amount obligated for CLIN 1 by December 2002. In coordination with USAID, Deloitte set up a system to have the proceeds from the sale of ABK shares cover any project related costs, until more funds are obligated by USAID. Below, the burn rate for this period is shown in relation to the total contract budget. Also listed below is the estimated amount expected to be charged to the bank sales proceeds for the periods ending April 5, 2003.

	RE-ALIGNED Total Contract Value (Yr 1 - Yr 3) As per Mod #9 8/15/02*	EXPENDITURES				CONTRACT Total Remaining (thru 5/10/04)
		Total Expended Year 1	Total Expended Year 2 (thru 5/04/03)	Total Expended Year 1 & Year 2 (date)	Burn Rate (to (thru 5/4/03)	
CLIN 1	\$ 12,859,173.00	\$ 3,943,699.34	\$ 4,998,346.45	\$ 8,942,045.79	70%	\$ 3,917,127.21
CLIN 2	\$ 12,060,887.00	\$ 5,000,000.00	\$ -	\$ 5,000,000.00	41%	\$ 7,060,887.00
CLIN 3	\$ 4,098,690.00	\$ 1,800,000.00	\$ 2,298,690.00	\$ 4,098,690.00	100%	\$ -
	\$ 29,018,750.00	\$ 10,743,699.34	\$ 7,297,036.45	\$ 18,040,735.79	62%	\$ 10,978,014.21

*Listed CLIN 1 total does NOT include award fee not obtained in prior award fee periods

USAID Budapest, approved project costs after all obligated funds are expended will be paid using the sales proceeds, until additional project funds are obligated to CLIN 1.

Total Estimated Costs to be Paid through Bank Sales Proceeds (through 4/5/03) \$ 1,683,860.33

Every subsequent report will include the latest budget data and STTA utilization figures as per the requirements of USAID.

4.3 Contract Administration

Although there were no contract modifications this quarter, with the sale of shares of the ABK, the sales document, loan loss indemnification agreement, and shareholder's agreement were generated and signed. These documents, along with the KBF project contract, have an impact on the implementation of the project and must be adhered to in making project-related decisions.

4.4 Subcontractors

For the Kosovo Business Finance Project, Deloitte has worked with Deloitte Touche Central Europe (DTCE), Rabobank International Advisory Services (RIAS) and IMCC to deliver technical assistance. During the last quarter, all local employees, previously employed by DTCE, were transferred over to the ABK payroll. Therefore, the involvement of Deloitte Touche Central Europe has decreased in this capacity on this project. RIAS role has also decreased, while IMCC continues to provide support in the credit administration department.

Further support may be needed by the subcontractors in terms of short-term technical assistance in future quarters; however, these needs have not yet been defined. Support in other areas will be discussed in future reports.

5.0 OUTSTANDING ISSUES AND CONCERNS

We will continue to work with USAID on a daily basis to inform of important issues, concerns, and/or developments that arise in the course of our work. In addition to updates during the period, there are more general issues and developments that we would like to highlight in this report that may have a bearing on performance and/or give rise to new challenges in the future. Below is a short discussion of some of the major issues and concerns during the quarter.

Deposit Targets: Deposit mobilization is not occurring as rapidly as previously expected because the overall deposits in the banking system in Kosovo are stagnant. All deposit growth requires gaining market share at the expense of competing banks. This is a difficult task but one that the ABK has confronted with incentive programs for new accounts, waiver of in-coming transfer fees, reimbursement to customers of other banks' transfer charges to an ABK account, a fast track program for large business customers and offering individualized product and services for very-large high potential clients. As a result, ABK's deposit base has steadily expanded and market share has grown faster than any other bank in Kosovo. However, the result is far less than the project targets.

Obligated Funds: Since expenses have exceeded the total obligated amount for the project and there are no more funds expected until March 2003, the project has been relying on the proceeds from the sale of the bank for future funding until more money is allocated to the project by USAID.

6.0 WORK PLAN FOR NEXT QUARTER

The following section provides a brief overview of the areas of focus for the KBF project team during the following quarter (March 1 – May 30, 2003).

Manage the ABK branches: The ABK management team will continue to oversee the branch network to ensure smooth operations. It is crucial over the next few months for the team to maintain a strong focus on the management, training and improvement of all operations in order to maintain a high level of customer satisfaction at all ABK branches.

Focus on meeting USAID targets and benchmarks: The team will maintain a strong push to try to meet the targets and objectives set by USAID for the second year of the project. The next quarterly report will provide an updated comparison.

Continue emphasis on the ABK/RBK marketing program: The New Business Development manager and all bank employees will continue to work towards increasing the level of deposits at ABK. Corporate accounts will continue to be aggressively pursued. Emphasis will be placed on managing the rebranding campaign.

Continue internal improvements: Efforts for this month will be placed on providing additional training to expand knowledge of products and expected teller and customer services.

Continue Globus modifications: Since the RIB/RZB purchase, there has been renewed focus on improving the GLOBUS systems. Short-term experts will be brought in to fix current problems with the system.

Finalize launch of ATM network: Private label bankcards are being redesigned to reflect the name change of the bank.

Complete KBFF Audit Work: As a requirement of UNMIK, the Kosovo Business Finance Fund (KBFF) must have a financial audit for the 2002 calendar year completed with results submitted to UNMIK by March 31, 2003. An external auditor will be contracted by KBFF (Alan Pieper, Director) for this and s/he will work with the team to complete this audit.